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Medvedev Ousts Putin's Friend 'Lyosha'

By Howard Amos

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Finance Minister Alexei Kudrin, left, attending a meeting of the modernization commission in Dimitrovgrad where Medvedev told him to quit Monday. **Dmitry Astakhov**

Check out our photo gallery of Alexei Kudrin's career.

In answer to President Dmitry Medvedev's angry call for his resignation in front of television cameras and his Cabinet colleagues, Finance Minister Alexei Kudrin couldn't help but invoke the name of Vladimir Putin.

In a second snub to Medvedev in three days, Kudrin made it clear that he would have to consult with Prime Minister Putin — who has admitted to affectionately referring to his long-serving finance minister as "Lyosha" — before he would resign.

Late Monday night, Putin sent Kudrin's resignation letter to Medvedev, who signed it.

The surprise ouster of Kudrin, who was appointed finance minister in 2000 and is widely admired for his fiscal conservatism, marks the culmination of a rift that has emerged at the heart of the government.

But there are few who believe that Kudrin's career is over. Appointed as finance minister by then-President Putin in 2000, Kudrin has close links to the Kremlin's ultimate power broker whose announcement that he would seek a six-year presidential term in the 2012 election was greeted by cheers at a United Russia convention on Saturday.

Putin and Kudrin worked together in St. Petersburg under Mayor Anatoly Sobchak and they are long-term friends. Putin referred to Kudrin as "Lyosha" in a book of interviews published in 2000.

"Kudrin will remain in Putin's circle. The man who has a land burning under his feet needs a trusted professional," said Boris Nemtsov, a former deputy prime minister who worked with Kudrin under the late Prime Minister Viktor Chermomyrdin.

Nemtsov said by telephone that Kudrin might become chairman of the Central Bank or Putin's adviser on the economy.

The announcement of Kudrin's resignation comes at a sensitive time for Russian markets. Investors last week watched the MICEX plunge 12 percent and the RTS 16 percent.

"Just as Putin is the people's champion, Kudrin is the investor's champion. They will not be happy with his departure," said Chris Weafer, chief strategist at Troika Dialog. "This will be of greater concern to the markets than the reversal of the tandem."

Medvedev confronted Kudrin, who was also a deputy prime minister, at a televised meeting in Dmitrovgrad in the Ulyanovsk region about Kudrin's declaration on the sidelines of a World Bank and IMF gathering in Washington on Saturday that he would not serve in any Cabinet led by Medvedev as prime minister.

"Such statements appear improper ... and can in no way be justified. Nobody has revoked discipline and subordination," Medvedev told Kudrin, who, apart from a small pout, remained impassive as he was lectured.

Medvedev said that if Kudrin was not satisfied with the Kremlin's agenda, "you have only one option and you know what it is — to resign."

Kudrin responded that he would make the decision only after consulting with Putin.

"You can seek the advice of whomever you want, but as long as I'm the president, such decisions are made by me," Medvedev spat back.

Medvedev accepted the resignation of Kudrin, 50, hours later.

"The president signed the resignation in accordance with the appropriate procedures and as advised by the prime minister," said Natalya Timakova, Medvedev's spokeswoman.

Despite Kudrin's airing of his disagreements with Medvedev over the weekend, the events

appeared to unfold with a speed expected by few.

Timakova had told reporters on Monday morning that the Kremlin did not expect any changes in the government until after the December parliamentary elections, Bloomberg reported.

Kudrin, who has confessed to enjoying playing hockey in his youth, was seen as positioning himself for the prime minister's portfolio in an interview published in Kommersant last week.

"It's a clusterf---," said one Moscow-based investor, who asked to remain anonymous because of the sensitivity of the issue. "It's very poorly prepared — Kudrin was expecting to become prime minister, and Putin clearly decided otherwise."

Ekho Moskvy radio chief editor Alexei Venediktov wrote on his blog that the move was likely to be a gambit on the part of Putin to free himself from Kudrin's fiscal austerity in the the run-up to the election and to publicly show his support for Medvedev.

A senior United Russia official, Andrei Isayev, said Kudrin "did not understand that now is the time not for personal ambition, but for a consolidation of strength for the resolution of the country's problems," according to a statement posted on the party's web site.

Kudrin has also lost some important battles in recent months, including his failure to get the Cabinet to use a $70 base price for a barrel of oil in the latest budget.

Leonid Gozman, a liberal politician who knows Kudrin well and earlier this year backed him as a leading member of the Right Cause party, declined to speak about the possible political ambitions. But he said Kudrin has "big political potential."

"I don't remember a single case where he acted illogically," he said, referring to Kudrin actions during financial crises.

Gozman also called Kudrin "a man of great erudition in all walks of life." Kudrin is known for his love of classical music and is a lifelong friend of Marinsky Theater conductor Valery Gergiev.

Kudrin has been a staple of the Russian political scene since he became first deputy finance minister in 1997. Following his appointment as finance minister in 2000, he has built a reputation on his fiscally conservative stewardship of the Russian economy.

His tenure saw budget surpluses from 2000 to 2008, and he overcame political pressure to stash away more than $200 billion in gold and currency reserves during a period of climbing oil prices. The rainy-day fund was used to mitigate the effects of the 2008 recession, when Kudrin described Russia as "an island of stability in the sea of the world crisis."

Kudrin is also well known and well respected among bankers, economists and politicians on the world stage.

During a break from an International Monetary Fund session in Washington in 2005, Kudrin told reporters about the lapel pins on his suit — which he values highly. Each of them was given to him for participation in a high-level finance meeting.

Kudrin was named the best finance minister by Banker magazine in 2005 and by Euromoney magazine in 2010.

Kudrin said in Washington on Saturday that friction with Medvedev had arisen from the president's push for a 2.1 trillion ruble ($65 billion) increase in defense spending through 2014. In an interview with RT television on Monday, he said he would serve the cause of reform, which he defined as "restructuring of the pension system, privatization, expanding competition in the economy, regulating tariffs, and the liberalization of quite a number of industries where the state still prevails in price regulation."

But the director of a Russia-focused asset management fund compared Kudrin with former British Prime Minister Gordon Brown, whose strong economic record did not save him from political backstabbing and a swift electoral defeat.

"Kudrin is a competent technocrat who is respected but not liked," said the director, who asked for anonymity to speak candidly. "He doesn't have leadership qualities, so he can't be prime minister. Although he was a safe pair of hands and a voice of reason within the government, he wasn't a lonely voice and he's not irreplaceable."

Kingsley Bond, Russia strategist at Citigroup, disagreed, saying investors would be "very comfortable" with Kudrin as prime minister. "Kudrin has been most associated with the attempt to ensure that fiscal expenditure does not grow too fast and the desire to restrain expenditure on infrastructure programs," he said.

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